



Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2000.

FINANCIAL RESULTS

For the year ended 31st December, 2000, the Group recorded an audited consolidated net loss attributable to shareholders of HK\$121.6 million, as compared with a net loss of HK\$1,261.6 million for the 1999 financial year. As referred to in the Interim Report, the results for the year under review included the write back of a provision in the sum of HK\$340.4 million made in prior years. The provision was related to certain contingent liability in respect of a guarantee and indemnity given by the Group, which has been favourably resolved during the year.

DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2000 (1999 - nil).

REVIEW OF OPERATIONS

The Company raised in January and March 2000 new equities in an aggregate sum of about HK\$170 million through two placements of shares at an issue price of HK\$0.37 and HK\$1.00 per share respectively. A majority part of the proceeds obtained was used to reduce outstanding borrowings and the remainder for working capital purposes.

At a special general meeting held on 22nd September, 2000, the independent shareholders of the Company approved the proposal for the possible acquisition of up

to a 30% effective interest in Century Digital Enterprise Limited for a consideration of up to HK\$2,475 million, to be satisfied by the issue of new shares of the Company at an issue price of HK\$0.55 per share. The proposed acquisition can be effected either by the exercise of a call option by the Company or a put option by the Founder Group which beneficially owns the existing issued shares of Century Digital.

Century Digital and Beijing Century Union Digital Technology Limited, a sino-foreign equity joint venture 90% owned by Century Digital, are involved in information technology business in connection with a broadband national railway fibre optic network in the PRC. The Company presently owns an attributable interest of approximately 4.9% of Century Digital through the Founder Group. The acquisition proposal was intended to provide to the Company an opportunity to increase its involvement in information technology businesses and, more importantly, to revitalize the Company so that it may gradually restore its financial stability. Further information on the proposal was contained in the circular dated 6th September, 2000 sent to shareholders.

On 16th February, 2001, the Company announced that both the Company and the Founder Group agreed that all the conditions precedent to the first exercise of the call option and the put option have been fulfilled to their reasonable satisfaction. As such, both the call option and the put option can be exercised during the 24-month period to 15th February, 2003 in accordance with the terms set out in the circular.

It was originally envisaged that the PRC Joint Venture would equip the fibre optic network for service in 3 stages, with stage 1 of the network connecting 5 cities to be completed by end 2000. Based on information obtained from the Founder Group, the rollout plan has been delayed on account of difficulty in obtaining vendor financing for the necessary equipment on acceptable terms. In the circumstances and to take advantage of the availability of bandwidth at preferential rates, the PRC Joint Venture is currently considering the leasing of bandwidth as an interim measure to enable service to be provided. This interim measure is considered to be more viable economically in the short to medium term. The equipping of the fibre optic network will therefore be postponed until such time that the level of business volume would justify the amount of capital investment required. In the meantime, the new office premises together with the 32,000 square feet data center located in Haidian district in Beijing are expected to be ready for operation shortly.

The operating highlights of Paliburg Holdings Limited and Regal Hotels International Holdings Limited are set out below.

PALIBURG HOLDINGS LIMITED

For the year ended 31st December, 2000, Paliburg incurred an audited consolidated net loss attributable to shareholders of HK\$641.3 million, as compared with a net loss of HK\$1,363.6 million recorded for the 1999 financial year.

During the period from the beginning of 2000 to the date of this report, continuous efforts were put to implementing for



Paliburg group a financial restructuring with a view to resolving the liquidity strains it encountered. Due to the stagnant condition of the local property market, disposal of sizable assets was relatively hard to achieve. In order to relieve part of the liquidity strains, Paliburg group completed in September 2000 a mortgage-backed securitisation based on its two principal investment properties at Kowloon City Plaza and Paliburg Plaza to raise additional funds. A sum of HK\$1,247 million was raised through the securitisation process and the net proceeds derived was used by Paliburg to repay or reduce bank borrowings and for general working capital purposes.

As stated in its Interim Report issued in September 2000, Paliburg group had outstanding Exchangeable Guaranteed Bonds due for maturity in February 2001 and it was mentioned that depending on circumstances developing, it may need to enter into discussions with the bondholders with a view to restructuring the terms of the bonds. In last October, an independent financial adviser and a legal adviser were appointed by Paliburg to advise it with respect to the possible restructuring of the terms of the Exchangeable Bonds and the Zero Coupon Guaranteed Convertible Bonds due 2002. Since then, informal meetings and discussions have been held with the holders of the two bonds and a restructuring proposal involving, among others, an extension of the maturity date of the bonds to February 2004 was presented to the bondholders for their consideration.

As announced by Paliburg in its announcement dated 6th February, 2001, the Exchangeable Bonds involving a total outstanding principal amount, premium and interest accrued of US\$161,488,405 matured on 6th February, 2001 and remain unpaid.

This non-payment has caused a cross-default to the Convertible Bonds with an outstanding principal amount of approximately US\$210,000,000, which together with the accrued premium have now become due and payable.

Paliburg is in discussions with the holders of the bonds with a view to putting in place a consensual restructuring of the terms of the bonds to avoid any enforcement action being taken by the trustees of the bonds.

A brief review of the principal operating activities of Paliburg group is contained below.

Property Development

The office floors and the remaining ground floor shops in **211 Johnston Road, Wanchai** have been put up for leasing and approximately 44% of the available space is presently rented. Paliburg group will consider selling these office floors and shop units when market condition of commercial properties improves.

An agreement for the sale of the office/retail banking building at **361 Shau Kei Wan Road, Shau Kei Wan** at a consideration of HK\$100 million was signed recently and completion is scheduled for June 2001.

Paliburg group is retaining a 30% interest in the joint venture for the development of the site at **Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East**. In February 2001, the site was formally rezoned from industrial to residential development use. The joint venture is presently proposing a development comprising primarily residential accommodation of approximately 903,000 square feet with ancillary commercial and other facilities. Under the terms of the joint venture, any future

funding required for the completion of the project will be procured by the other partners of the joint venture with no recourse to Paliburg.

The proposed resort and recreational development on the property at **various lots in Demarcation District No. 251, Sharp Island, Sai Kung**, which has an aggregate site area of 201,700 square feet, has been accommodated in the Draft Recommended Development Strategy of Study on South East New Territories Development Strategy Review conducted by the government. Revised plans are being prepared and will be submitted shortly to advance the project further.

To cater to changed market demand and to achieve savings on construction costs, the building plans for this residential project at **Lot No. 1736 in D.D. 122, Tong Yan San Tsuen, Yuen Long** entailing a total gross floor area of about 22,000 square feet, have been revised and recently approved.

The luxury residential development project at **Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley**, which is 40% beneficially owned by Paliburg and 30% owned by Regal, is planned to provide a total of 139 houses with an aggregate gross floor area of about 428,900 square feet, complemented with a wide range of club house, recreational and other ancillary facilities.

Negotiations with the lending banks to reactivate drawdowns under the original construction loan facility are in a final stage and preparatory works for the recommencement of construction works have also mostly been completed. Assuming that the construction works can be

recommended shortly, presale of the Phase I house units will be launched in the first half of 2002. Similar to last financial year, the financing costs (including interests accruing on the shareholders' loans) incurred by the jointly controlled entity owning the project have not been capitalized. Consequently, the results of Paliburg group for the year under review have been adversely affected.

Paliburg held through one of its wholly owned subsidiaries a 65% interest in the foreign partner holding a 70% interest in a sino-foreign equity joint venture, which in turn owns the **Paliburg Plaza development site located in Chao Yang District, Beijing**. In December 2000, Paliburg completed the sale of a 50% interest in that wholly owned subsidiary to a third party for a gross consideration of HK\$71,500,000. This development project is planned to consist of twin office towers erected on a commercial podium with an aggregate gross floor area of about 1,000,000 square feet. The development plans have already been approved and construction works will soon commence. Unit presale of the development is expected to be launched as soon as practicable. Funding required for the construction works is planned to be provided through project financing.

In June 2000, Paliburg group entered into an agreement with a third party in relation to the joint development of the **Century City Plaza development site located in Chao Yang District, Beijing**, under which Paliburg group will retain exclusively the hotel portion included in the subject site, which is to have a developable gross floor area of about 860,000 square feet and to be delivered on a vacant and leveled basis. Pursuant to that agreement, supplemental



contracts relating to the PRC co-operative joint venture established for the project have been signed by the parties involved and approved by the relevant government authorities. In November 2000, the Beijing Land Resources and Housing Administration Bureau issued an announcement announcing the resumption of the subject site due to its idle condition. However, the affected parties will have the right to make application to the Beijing municipal government or The Ministry of Land and Resources P.R.C. for an administrative review. Paliburg group together with other parties concerned are undertaking negotiations with relevant authorities with a view to safeguard their respective interests. The directors of Paliburg are hopeful that the matter will be able to be resolved in the near future.

Paliburg group owns the **Crown Hill site located in the central city west area of Los Angeles**, and is considering options for the possible disposal of this property.

Property Investment

About 96% of the office space and 99% of the retail space in **Paliburg Plaza in Causeway Bay** are currently under lease, and the rental levels are maintained at about the same levels in 1999.

Due to the continued contraction in consumer spending, rental rates achieved on new tenancies and renewals for **Kowloon City Plaza in Kowloon City** were under pressure, but the average occupancy during the year was maintained at about 92%.

Over 90% of the lettable space in this commercial complex at **Redhill Plaza, 3 Red Hill Road, Tai Tam** is currently under lease or committed at satisfactory rental rates.

Other Business Operations

Contract works being undertaken by **Chatwin Engineering Limited**, an 80% owned subsidiary of Paliburg, have been progressing steadily and are expected to generate satisfactory profits. However, due to the contraction of new construction works and the narrowing of profit margin, the securing of future contracts will become more competitive.

The **cement plant in Weifang, Shandong, the PRC**, in which a 75% owned subsidiary of Paliburg holds a 25% interest, maintained steady performance during the year.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the year ended 31st December, 2000, Regal incurred an audited consolidated net loss attributable to shareholders of HK\$227.5 million, as compared with a net loss of HK\$1,085.7 million for the preceding financial year.

During the year under review, visitor arrivals to Hong Kong increased by about 15% to a total of over 13 million. Benefiting from the increased number of visitors, the average hotel occupancy in Hong Kong was up by more than 3% as compared with 1999, while average room rate also gained by about 10%.

The combined average occupancy of the **four Regal Hotels in Hong Kong** in 2000, excluding the Regal Airport Hotel in Chek Lap Kok, was 74.2%, representing an increase of about 9% as compared with the preceding year. As for the combined average room rate, an increase of about 10% was recorded. The improved performance attained was largely attributable to efforts placed on the strengthening of the sales and

marketing functions. The renovation programme for the Regal Kowloon Hotel is in progress, with the executive floors on the top two storeys of the hotel building just reopened after major renovation works. The new conference and meeting facilities for the Regal Hongkong Hotel have been very well received and contributed to additional room and food and beverage businesses. To meet the increasing demand, these conference and meeting facilities have recently been further expanded.

With additional hotel rooms being completed and coming on stream in stages, the number of average available rooms for the **Regal Airport Hotel** increased from 576 in 1999 to 881 in 2000. Due to the enlarged room count, the average occupancy during the year under review was marginally lower than that in 1999, but the average room rate improved by over 5%. Except for a few superior suites which are undergoing final decoration works, all of the 1,100 rooms in this hotel have been completed since early this year. Having regard to the size of its operating capacity and its unique positioning, this hotel will no doubt be the most significant revenue generator of all the five Regal Hotels in Hong Kong.

The Regal group retains a 30% joint venture interest in the residential development project at Wong Ma Kok Road, Stanley, the latest progress of which has been separately reported on in the section under Paliburg group above.

With the sale of the Regal Bostonian Hotel completed in June 2000, the disposal of all of Regal group's hotel ownership and management interests in the United States has been duly completed. The deferred portion of the consideration in the amount

of approximately US\$45 million will be receivable by Regal in December this year.

The Regal group still owns the **Regal Constellation Hotel in Toronto, Canada**, which is maintaining steady performance.

Business at the two managed hotels in Shanghai, namely, the **Regal International East Asia Hotel** and the **Regal Shanghai East Asia Hotel**, remained satisfactory and contributed modest management income.

The **Kaifeng Yatai Brewery in Henan** continued to face very difficult operating environment due to stiff competition. The management and marketing functions of the brewery are being reinforced with a view to enhancing its operational efficiency and to expanding its sales into new markets in the PRC.

OUTLOOK

With brighter prospects setting in for local tourism, the hotel industry in Hong Kong is anticipated to sustain further recovery in 2001. As the Regal Airport Hotel is now virtually in full swing, overall revenues from Regal group's hotel operations in Hong Kong are expected to substantially increase as compared with the year under review.

The directors of Regal are hopeful that as the overall economic condition in Hong Kong improves, Regal will be able to gradually restore its profitability.

Following completion of the refinancing through the securitisation arrangement concluded in September last year, banking facilities to Paliburg group have mostly been stabilized. In fact, one of the principal objectives of the securitisation arrangement was to put Paliburg group on a more stable platform, such that negotiations with the



lending banks of the Stanley development project for the revival of the original construction facilities could be expedited. As mentioned above, such negotiations are already in a very final stage. If the Stanley development project can be successfully completed and sold, the level of interest expenses of Paliburg as well as that of Regal will be significantly reduced and may further generate substantial cash surplus after repayment of the project loan.

Paliburg group as a whole will continue with its asset disposal programmes in order to further reduce its gearing levels and to provide funding for its future commitment. In the meantime, Paliburg is engaging in active discussions with the holders of the Exchangeable Bonds and Convertible Bonds with a view to restructuring the terms of the bonds. The outcome of the discussions is yet uncertain, but if the restructuring proposal can be satisfactorily concluded, the overall stability of Paliburg group going forward will be ensured.

Most of the Company's creditors have continued to participate in the standstill on an informal basis. In March this year, a proposal was presented to the creditors of the Company through its financial adviser for a restructuring of the loan indebtedness. The proposal was contingent upon the successful restructuring by Paliburg of its outstanding bonds, as the controlling shareholding interest in Paliburg represents the most significant asset of the Company. The drastic turn of the economy during the past few years has seriously affected the

financial position of the Group. While the Group's management will use every possible effort to achieve a successful outcome of the restructuring discussions, this is however dependent on the support of the relevant creditor groups.

DIRECTORS AND STAFF

Lastly, I wish to take this opportunity to express my appreciation to all my fellow colleagues on the Board as well as all management and staff members for their commitment and efforts.

LO YUK SUI
Chairman

Hong Kong
17th April, 2001